



Consumer Federation of America

June 19, 2014

Commissioner Mike Chaney
Chair, NAIC Property and Casualty Insurance (C) Committee
Mississippi Insurance Department
PO Box 79
Jackson, Mississippi 39205-0079

**Re: Flawed Process Employed by Chair of CASTF during June 10, 2014
Conference Call**

Dear Commissioner Chaney:

Last week Consumer Federation of America (CFA) provided written and oral testimony to the Casualty Actuarial and Statistical Task Force (CASTF) of the NAIC's C Committee. Inexplicably, our testimony will be excluded from the record of that meeting. I write to urge you to ensure that consumer voices are not denied their proper recognition in NAIC proceedings and to ask that you revisit the inclusion of CFA's testimony.

Background

CFA has been engaged in discussions with the NAIC for over a year on the question of Price Optimization, appearing before both CASTF and the Auto Study Group regarding the issue. CFA is very concerned with Price Optimization as it moves insurance rates away from being cost-based by applying marketing factors in pricing, such as elasticity of demand.

The Casualty Actuarial Society (CAS) issued a Discussion Draft of a proposed Statement of Principles for Ratemaking last year, with comments due from CAS members on June 10, 2013. That draft contained a safe harbor that would allow Price Optimization to comply with the Society's Statement of Principles (SOP). On May 17, 2013, I wrote to the CAS objecting to the Draft on the grounds that it would allow Price Optimization and noting that the cover letter and other material sent to the CAS membership did not make this important change from cost-based rates clear to the membership. I also raised my concerns with this (CASTF) Task Force and with all of the nation's Insurance Commissioners.

On May 22, 2013, the CASTF Chair, Richard Piazza wrote to the CAS expressing CASTF's concern "with the shift in emphasis from loss based ratemaking principles

to principles that encompass subjective market driven ratemaking.” Similarly, on May 21, 2013, Commissioner Jones of California warned the CAS that he agreed with CFA’s concern that “the new language appears to open the door to allow new pricing schemes such as ‘price optimization...’” He went on to say that “we would consider such distinctions to be unfairly discriminatory.”

Under this scrutiny, the CAS withdrew the 2013 Draft SOP on Ratemaking. However, it appears that in a revised Draft SOP revealed last week, CAS leadership is trying to surreptitiously open the door to Price Optimization, once again.

CASTF 2014 Involvement

On May 12, 2014, the CAS sent a “Preliminary Version of the Revised Draft of the CAS Statement of Principles on Ratemaking” to this Task Force. CFA learned of this through reading the agenda for CASTF’s June 10, 2014 conference call (which we received on Wednesday June 4, 2014. The agenda item read as follows: “Discuss Informal Response to Casualty Actuarial Society’s (CAS) Preliminary Version of the Revised Draft of the CAS Statement of Principles on Ratemaking—*Richard Piazza (LA)*”

CFA reviewed the CAS draft and, as we explain in detail in the attached statement sent to CASTF Members at 10 AM on Monday June 9, 2014, the draft opens the door to what Chairman Piazza had, a year earlier, called “subjective market driven ratemaking” and what Commissioner Jones said was illegal unfair discrimination. Once again, the transmittal letter from the CAS did not make clear that the effect of the changes in the Draft would be to open the door to Price Optimization and other such non-actuarially-sound methods.

During the June 10 CASTF conference call, Chairman Piazza told the attendees that he did not think that CASTF should respond to this preliminary Draft, despite the agenda item’s sole purpose being a discussion of a response to the Draft. Other members of the TF objected and the CAS representative made it clear that it sought such input. In response, the Chair announced he would merely collect written comments from the TF members and forward them to CAS.

When Chairman Piazza tried to move on to the next agenda item, I asked to comment. I started by asking if, as I requested, CFA’s statement would be made part of the record of the conference call. For unexplained reasons, the Chair said it would not be part of the record. Though I objected, noting that this is a critical issue of consumer protection and proper regulation and that I had responded to an agenda item in a timely manner and provided task force members ample time to review my comments, the Chair persisted in stating that he would not put my statement in the record. As I understood it, the comments the Chair would forward to CAS from members of the TF would also not be made part of the CASTF meeting record, although this was not entirely clear.

I think very highly of Chairman Piazza but feel that the process he employed in this instance is deeply flawed.

CFA Request of the C Committee

CFA hereby requests that the C Committee do two things:

1. Make CFA's statement entitled "Statement of J. Robert Hunter, FCAS, MAAA before the Casualty Actuarial and Statistical (C) Task Force of the National Association of Insurance Commissioners, June 10, 2014 'CASTF SHOULD REJECT THE CAS DRAFT SOP ON RATEMAKING'" part of the record of the CASTF conference call of June 10, 2014.
2. Order that CASTF make public any material the Chair sent to the CAS as a result of the action taken on June 10, 2014. We specifically request a copy of such comments be sent to CFA for our consideration.

Thank you very much for your assistance in rectifying what seems to us to be a flawed process.

Sincerely,



J. Robert Hunter
Director of Insurance

Attachments:

CFA May 17, 2013 letter to CAS objecting to 2013 draft SOP.

Commissioner Jones letter to CASS dated May 21. 2013.

CASTF letter to CAS of May 22, 2013 raising issues related to the draft SOP.

CAS memo to CASTF dated May 12, 2014.

CFA Statement sent to CASTF for inclusion in the record of the June 10, 2014 conference call.

CC: Chair, Vice Chair and Members of CASTF
NAIC Executive (EX) Committee